ALTAI

RESOURCES INC.

ANNUAL REPORT 1997

TO OUR SHAREHOLDERS

The audited consolidated financial statements for the year ended December 31, 1997 and the technical summaries of our main properties are presented in this annual report.

THE YEAR IN REVIEW

We had informed in our last year's annual report that our expenditures for 1997 would be curtailed during these difficult times for junior resource companies. Our expenditures for 1997 were kept to below $500,000. Considerable effort was made to lease, sell or joint venture some of our properties, particularly in the Philippines. A letter of agreement to sell the limestone property was signed and the sale is expected to close in the coming summer. We are confident that agreements in two other properties (one joint venture and one lease with advance royalty payments) will be finalized before the fourth quarter of this year. Major mining companies as well as smaller ones are now far more discriminating in acquiring assets than they used to be, hence satisfactory deals take longer time to finalize than in the past.

Our aim is to improve the price of our shares in the market place through lease, sale and joint ventures on some of our properties. When the share price improves, we intend to do a financing to develop some of our properties on our own.

THE YEAR AHEAD

The emphasis in the year ahead will be on upgrading our more advanced projects (e.g. Lahuy Island gold property) rather than working on the "blue sky" grass roots type of properties. We may add one or two more advanced projects (close to feasibility stage) to our portfolio and drop some less advanced ones, particularly in Peru. Market sentiments are no longer favorable for start-up projects (hence they are difficult to finance) but are favorable towards advanced projects with measured resources. We are confident that the Lahuy Island gold property hosts several hundred thousand ounces of high grade underground reserves and good potential for lower grade bulk mineable, open pittable material. Our task will be to upgrade these types of resources in this property and some others to measured category in order to proceed with feasibility studies.

We believe that gold prices will improve later this year and in 1999. We do not expect further deterioration in base metal prices; they will be either stable or improve. These, together with cyclical factors, should help our share price performance which will allow us to do a financing with less share dilution.

I would like to take this opportunity to thank our staff, consultants and shareholders for their continued support of this Company.

On Behalf of the Board

Dr. Niyazi Kacira
President and CEO
April 13, 1998

MAIN PROPERTIES

PHILIPPINES

Altai Resources Inc. incorporated Altai Philippines Mining Corporation ("Altai Philippines") at the beginning of 1996. Altai has a 40% equity interest in the Philippine company and has a direct 10% Net Smelter Return (NSR) royalty interest in all properties in which Altai Philippines has an interest. Alternatively, Altai may elect to give up its 10% NSR interest in return for building and owning 80% of the ore processing facilities; in such event, Altai would buy the ore from Altai Philippines by paying a royalty equal to 10% of the direct mining costs of the ore delivered to the processing facilities. Altai Philippines would subsequently have 20% ownership of the processing plant.

In the event that properties are joint ventured, leased or sold to a third party interest(s), 60% of residual proceeds will accrue to Altai until it recovers its expenditures and 40% to Altai Philippines. After recovery of Altai's expenditures, proceeds will be shared equally.

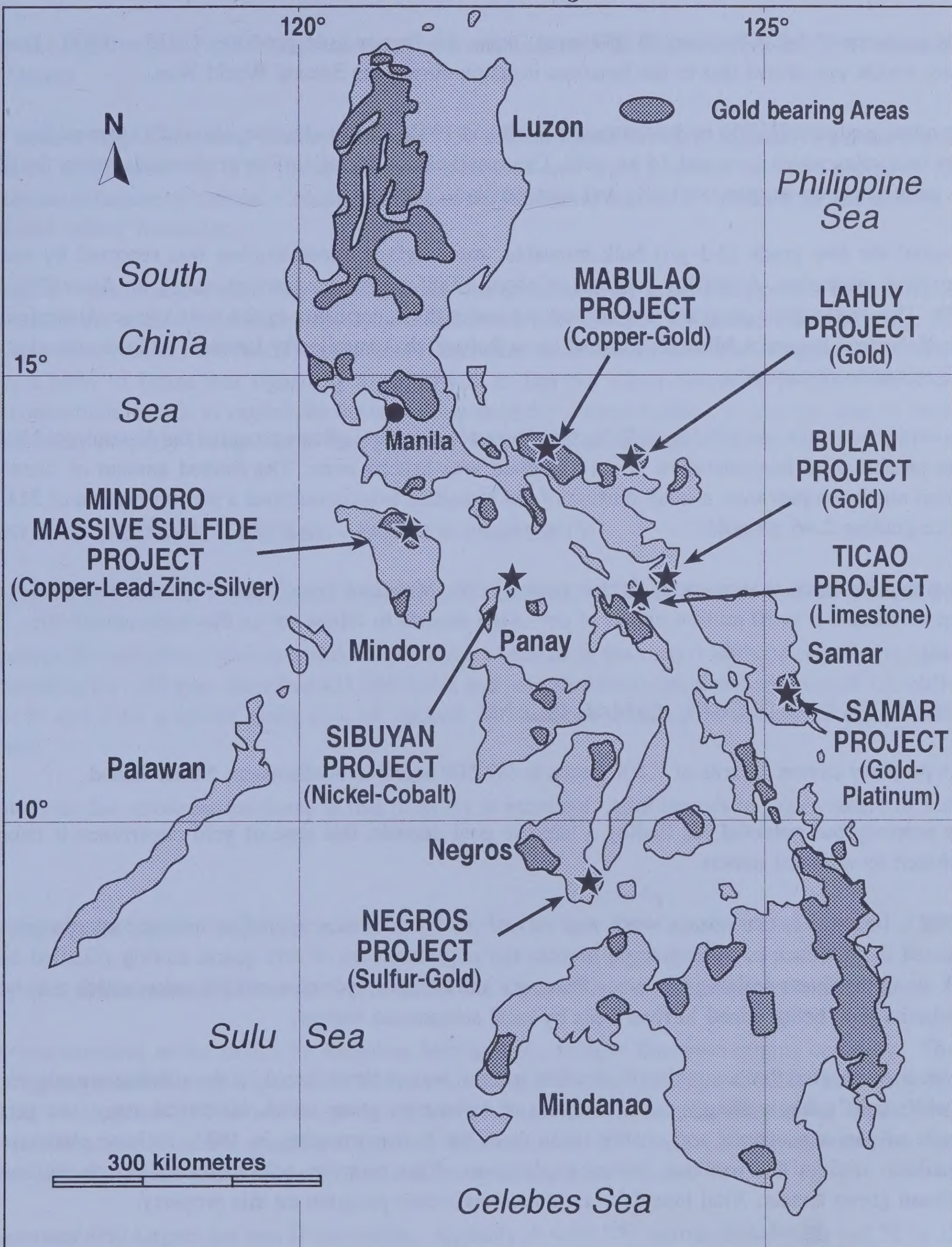
MABULAO COPPER-GOLD PROPERTY, CAMARINES NORTE

This property of 17,200 hectares (43,000 acres) is located in the Paracale gold mining camp in the Province of Camarines Norte, Luzon Island. The Paracale area is historically one of the most productive gold mining camps in the Philippines. The property is within a few kilometres of the National Highway which connects Manila with southeast Luzon. In the past, the property was subjected to exploration for porphyry copper deposits but has not been systematically explored for gold. Historical exploration data suggest that both Panguno and Submakin have good resource potential for both copper and gold.

The property was explored by Altai from late 1996 to early 1997. Surface exploration including mapping, trenching, soil and rock sampling was carried out at two of the mineralized zones which are located in the Submakin and Panguno areas. These two portions of the Mabulao property amount to less than 10% of the total area. The results of the four month long field program indicate widespread copper mineralization at both Panguno and Submakin, suggesting that the property has potential for the discovery of a porphyry copper deposit. In addition to the porphyry copper prospect, the polymetallic skarn type copper-lead-zinc mineralization at Submakin area was extensively trenched and was extended over a strike length of 1,000 metres. The mineralized zone remains open along strike. The skarn mineralization may not be economic at the current metal prices. The best gold mineralized zone discovered so far is within the Submakin portion of the property (Little Lizard Zone) which appears to be a structurally controlled mineralization of 5 to 10 metres in width. Nineteen channel samples of one metre length each taken from this gold occurrence averaged 4 g/t gold.

In order to conserve cash, it was decided that joint venturing the Mabulao project would be the least risky action to take. Subsequently, some of the major mining companies signed confidentiality agreements with Altai to obtain exploration data and to visit the property. During the second half of the year deterioration in commodity prices caused most companies to reduce exploration expenditures. As a result Altai has not yet received an offer for joint venture.

PHILIPPINE PROJECTS



Map showing geographic locations of Altai Resources Inc. projects and their relative position to known gold bearing areas of the Philippine Archipelago

LAHUY ISLAND GOLD PROPERTY, CAMARINES SUR

This property of 2,025 hectares (5,050 acres) hosts the former gold producer (1936 - 1941), Treasure Island Mine, which was closed due to the Japanese invasion during the Second World War.

The mine produced 66,000 oz gold between 1938 and 1941. The production, about 250 tonnes/day, was derived from two veins which averaged 14 g/t gold. Ore reserve/resource of similar grade exists below the 250 m level: this mineralization is open vertically and along strike.

Potential for low grade (2-3 g/t) bulk mineable, near surface mineralization was reported by one of Altai's consulting geologists. A drilling program of about 4,000 metres was carried out by an Australian company in 1988. This exploration program was carried out under the supervision of the well known Australian consulting firm Robertson Research Minerals Limited (now Robsearch Australia Pty Limited) and was aimed at delineating bulk mineable resources.

The exploration data compiled from Robertson Research's report indicate potential for disseminated bulk mineable open pittable gold mineralization in the Matalhud area breccia zone. The limited amount of diamond drilling carried out in the past over a small portion of the Matalhud breccia outlined a proven reserve of 214,000 tonnes of ore grading 2.46 g/t gold.

Robertson Research recommended further testing of the Matalhud breccia and states that this zone is sufficiently large to contain 5 to 10 million tonnes of ore. Altai intends to follow up on this recommendation.

SAMAR GOLD PROPERTY, SAMAR ISLAND

This property covers an area of 7,800 hectares (19,500 acres) in southeastern Samar Island.

The property has potential for finding a lateritic gold deposit; this type of gold occurrence is being currently exploited by artisanal miners.

In 1987, limited reconnaissance work was carried out by Minimax, a Philippine company, in this area. They reported the presence of hydrothermal breccia and large boulders of vein quartz cutting silicified and pyritized rock along the rivers draining this area. These are indicative of hydrothermal alteration which may be the source of alluvial gold being mined in river beds by local subsistence miners.

It was also reported that an unidentified white mineral was at times found by the subsistence miners who called it "white gold"; this is thought to be platinum or a platinum group metal. Historical assay data pertaining to a sample of pan concentrate presumably taken from the Samar property in 1993, indicate platinum as well as palladium, iridium and osmium. Future exploration of the property will involve a search for both gold and platinum group metals. Altai intends to do a reconnaissance program on this property.

TICAO LIMESTONE PROPERTY, MASBATE PROVINCE

This property of 1,300 hectares (3,250 acres) is located on a small island in the Masbate Province, 350 kilometres southeast of Manila.

The property hosts a large high purity limestone deposit (150 million tonnes or more) adjacent to a shale deposit at the tidewaters of Sibuyan Sea. The juxtaposition of limestone and shale provides an ideal source of raw material for the manufacture of cement. Certain portions of the limestone deposit are suitable for use as filler in paper, plastic and rubber industries.

A brief geological evaluation and sampling of the deposit was undertaken by Altai Philippines. The evaluation was aimed at testing the suitability of shale deposits associated with the limestone for cement manufacturing. This survey gave positive results; the shale has suitable chemical composition and low magnesium content. Subsequently, a letter of intent was signed by a consortium to buy the Ticao limestone property for US$ 1 million. The consortium intends to exploit the limestone and shale for cement making. Under the letter of intent, the transaction of the property is required to take place within the next six months.

SIBUYAN ISLAND LATERITIC NICKEL - COBALT PROPERTY

This property of 5,022 hectares (12,500 acres) is located on Sibuyan Island on the tidewaters of the Visayan Sea.

About one tenth of the aerial extent of the nickel deposit was explored in the early 1980's principally by Mitsui Mining and Smelting Co. of Japan. Based on 431 drill holes and test pits Mitsui calculated reserves of 7.2 million tonnes at 1.61% nickel (at a cut-off grade of 1.3% nickel). The material contains an average of one pound of cobalt per tonne.

Potential to increase the resources ten times in this property is excellent. Altai intends to joint-venture or lease this property.

MINDORO COPPER - ZINC PROPERTY

This property of 2,916 hectares (7,290 acres) is located in the Sipuyo Province on Mindoro Island.

The property was explored in the 1970's by Alusuisse Mining Ltd., a major European mining company. Their exploration program included sampling of mineral occurrences on the surface, soil geochemical surveys, pitting and an Induced Polarization (IP) survey which is capable of detecting sulfide mineralization at depth. These surveys, carried out along 50 metres spaced grid lines, defined excellent drill targets. However, Alusuisse could not at the time secure the title of the property, hence the project was discontinued.

The most important drill targets are two IP anomalies; Anomaly A with 500 metres strikelength and 50 to 150 metres width, and Anomaly D with 800 metres strikelength and 50 to 150 metres width. Anomaly A as well as the western end of Anomaly D have coincident soil geochemical anomalies. There are five other smaller IP anomalies.

In the western part of the surveyed area there are dozens of small (2 to 10 metres size) outcrops of gossan (iron oxide) and a few small outcrops of massive sulfides. Chip samples taken over 0.2 to 8 metres length of outcrops of gossan or massive sulfide assayed from trace to 13% copper, up to 8.2% zinc and 0.7% lead. Most of the gossan samples assayed 0.1 to 0.8% copper. Since in the tropical environment a significant degree of leaching of both copper and zinc is expected, these assay results are considered promising.

Around and near the gossan and massive sulfide outcrops, a 600 metres by 450 metres size area of soil geochemical anomaly with 200 to 1,000 ppm of copper, lead and zinc was outlined. In addition there are several smaller soil geochemical anomalies. The surveys carried out by Alusuisse cover only a small portion of the property. Future exploration is required to find additional mineralization and to define other drill targets.

It is not clear at this time whether this massive sulfide prospect is the Kuroko type or the Bessi type. In both cases it should contain gold and silver values which were not assayed by earlier workers. Enrichment of gold and silver can also be expected in the oxide cap.

OTHER PROPERTIES IN PHILIPPINES

Altai Philippines owns the Bulan gold property in the Sorsogon Province and the Negros Island sulfur property which may also have some gold potential. The Negros sulfur deposit has been drilled extensively (more than 30,000 metres - 100,000 feet of drilling). Mineable reserves have been estimated at 58,000,000 tonnes averaging about 30% sulfur in native and sulfide forms. The estimates were made by the previous owners. A further 25,000,000 tonnes of drill indicated resources were left out of the open pit design. Potential is excellent to increase the reserve/resource to well over 100 million tonnes.

The sulfur reserves are sufficient to support a large fertilizer plant. There is considerable demand for fertilizers in South East Asia. This property will be leased or joint ventured.

Efforts were made to lease the Negros Island sulfur property to a major mining company which would make a large investment to build a plant to manufacture sulfuric acid. Despite the project being well received by some of the major mining companies, a positive outcome is hindered by the current economic problems in South East Asia, which resulted in a reduction of foreign investment in this region. When the investment climate improves, this project is expected to be considered again by the potential investors.

CANADA

Altai has interest in three properties in Canada.

LAC ST. PIERRE GAS AND GAS STORAGE PROJECT, QUEBEC

The property of 53,000 hectares (132,500 acres) is located in the Sorel area, 100 kilometres east of Montreal in the industrial heartland of Quebec. To date 25% of the property has been covered by seismic surveys. Twenty three potential shallow (less than 150 metres) natural gas reservoirs with a total possible volume of 30 billion cubic feet have been outlined. Two of these reservoirs have been drilled with gas discoveries. The greatest value of the reservoirs is in gas storage to take advantage of the peak/off-peak price differential in gas consumption. Altai has 49% interest in the whole property.

In 1997, an option was granted to Great Legends Mining Inc. ("Great Legends"), a Montreal based private company, whereby it may earn 50% interest in the project by making exploration - development expenditures of C$3 million and cash payments aggregating to C$550,000 to Altai and its joint-venture partner over four years.

During 1997, Great Legends carried out a high resolution seismic survey over permits 88PG821 and 84PG731. A total of 42 line kilometres were surveyed at a cost of C$350,000. As a result, a shallow gas reservoir of 1.7 BCF capacity was outlined.

It is noteworthy that the nearby Point du Lac facility of Intragas which is a joint venture between Gas de France and SOQUIP uses a shallow gas reservoir of similar geological nature. The Intragas reservoir of 1.7 BCF was developed with eight injection/production wells. To date, the Lac St. Pierre project of Altai has 23 discreet reservoirs outlined with a total potential of 30 BCF of gas and potentially adequate for 16 BCF of storage capacity.

The next phase of the program would be to drill test three or four of these structures to determine their reservoir characteristics in order to undertake a feasibility to initially develop a gas storage facility of 3 to 4 billion cubic feet. Since the Intragas facility makes use of a very similar reservoir located only one kilometre from Altai's property, the probability of successful development is high. An internal prefeasibility study completed in 1992 indicated that a storage facility, with a capacity of 3.6 billion cubic feet, will provide C$73 million net (after recovery of preproduction expenditures) pre-tax cash flows in the first 10 years of its operations. Capacity can be increased subsequently by adding other reservoirs.

OTHER PROPERTIES IN CANADA

Altai's 50% interest in the Malartic Township gold property, Val d'Or area, Quebec and the Red Lake claims in Ontario are being maintained in good standing. No exploration work is being planned for these properties this year.

PERU

During 1997 the following properties were eliminated from our portfolio of Peruvian mining claims: Achanizo, Potrero, and San Jon. In addition, the landholding of the Cruz Blanca property was reduced from 2,600 to 1,000 hectares and that of the Tierra Amarilla property was reduced from 5,500 to 4,200 hectares.

At the end of 1997 Altai has the following nine mining properties:

PERUVIAN PROPERTIES OF ALTAI AT THE END OF 1997

Property and Commodity	Area of landholding	
	Hectares	Acres
Carcapata (gold)	3,900	9,637
Cruz Blanca 3 (copper, gold)	1,000	2,471
Pedregal (copper,gold,silver)	1,000	2,471
Rodeo (gold)	300	741
Rio Colorado (gold)	1,000	2,471
Solitario (gold)	300	741
Shunchuco (copper, gold)	1,000	2,471
Tierra Amarilla (gold)	4,200	10,378
Victoria, including the Retama and Fortuna Norte claims (gold)	3,200	7,907
Total	15,900	39,288

TIERRA AMARILLA GOLD PROPERTY

In early 1997 surface exploration including extensive sampling and zone trenching was carried out by Altai. A total of 268 metres length of channel samples of rocks were collected from a 2.5 km long 0.5 km wide zone of hydrothermal alteration which includes three closely spaced breccia pipes. Anomalous hose metal and gold concentrations were found along the entire area of intensive hydrothermal alteration; up to 1.36 g/t gold, 0.18% zinc, 0.60% lead and 0.10% copper were detected by assaying of rock samples. The best results were obtained from 20 metres length of channel samples which averaged 0.462 g/t gold, 364 ppm copper and 113 ppm zinc. Along 70 metres of distance which includes the above 20 metres interval, 21 channel samples of 2 metres length each assayed an average of 0.316 g/t gold, 258 ppm copper and 192 ppm zinc.

The geological features indicate that the property has very good exploration potential for finding a bulk mineable, disseminated gold-base metal deposit of porphyry or epithermal type.

During the second half of the year, efforts were made to option the Tierra Amarilla property to major mining companies. However, due to industry wide cutbacks of exploration budgets, suitable joint venture partners were not found. In 1998, Altai plans to carry out further surface exploration including geophysical surveys which will be aimed at locating drill targets.


0 100 200 300 400
kilometres
Shunchuco (Cu)
Pedregal (Cu, Au)
El Solitario (Au)
Rio Colorado (Au)
Trujillo
Tierra Amarilla 4-8 (Au)
Rodeo (Au)
Carcapata (Au)
N
LIMA
Pacific Ocean
PERU
Victoria (Au) &
Cruz Blanca (Cu, Au)
Property Locations
Peru

VICTORIA 1 AND 2 GOLD PROPERTY

This property of 2,000 hectares is located within the Caraveli gold mining camp. The past producing Eugenia Gold Mine is 2 kilometres northwest of the property while the Oconia Gold Mine, which has been continuously mining narrow gold veins for 80 years, is located 4 kilometres northeast of Victoria. The Victoria property has at least seven narrow high grade gold veins, some of them are more than 1 kilometre long and have a vertical extent (exposed on hillsides) of up to 1,000 metres or more. The average width of the veins is about 25-30 cm. In the 1970's, five of the veins were evaluated by the Mining Bank of Peru for the purpose of an operating loan to the owners at that time.

Altai's sampling of outcrops and workings of the Sauce and Fortuna veins gave a range of assay values from 1.8 to 78 g/t gold and has average values of 16 and 12 g/t respectively. Historical assay data published in reports of the Mining Bank of Peru suggest a higher gold grade. The grade may have been overestimated by the Mining Bank. Since the veins are narrow, a much higher gold price would be needed for a profitable mining operation. At the time of writing this report, the gold price is US$300 per oz, near its 18 years low. The management of Altai is considering sale or lease of the Victoria property.

Three Peruvian individuals have the right to earn 30% working interest in the Victoria project by making a cash payment equivalent to 30% of past expenditures relating to the acquisition and exploration of this property. Considerable delays have been experienced in finalizing this deal; to this date, Altai has not received the cash payment. This issue has not yet been resolved.

CRUZ BLANCA COPPER-GOLD PROPERTY

The total landholding of the Cruz Blanca property was reduced from 2,600 to 1,000 hectares. The Cruz Blanca 3 claim which is kept in good standing is adjacent to the claim drilled by Inmet Mining Corporation.

RIO COLORADO GOLD PROPERTY

A brief evaluation including geological mapping and sampling of outcrops was carried out on the property. The best assay results were 0.46 g/t gold, 1,033 ppm zinc and 659 ppm copper. The low grade base metal and gold mineralization occurs in fractured and altered sedimentary rocks. During a previous evaluation, one sample taken from a quartz vein assayed 15.9 g/t gold. Until the gold price improves substantially, the Rio Colorado property will not be further explored.

OTHER PROPERTIES IN PERU

Altai del Peru S.R.L., the wholly owned subsidiary of Altai, owns 5 other mining properties in Peru which have potential for gold or copper-gold mineralization. Among these properties, the Rodeo property is located in the Huaraz area within a gold-silver mineralized belt which also hosts the Pierina deposit of Barrick Gold Corporation. The area adjacent to the Rodeo property is being explored by the Barrick-Queenstake joint venture.

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1997

ASSETS

	1997	1996
Current		
Cash	$ 269,916	$ 633,493
Marketable securities (Note 3)	283,478	364,444
Accounts receivable	7,205	24,465
Prepaid expenses	4,045	5,941
	564,644	1,028,343
Share investment (Note 4)	596,754	596,754
Note receivable (Note 5)	546,903	546,903
Investment in subsidiaries (Note 6)	1,023,457	1,030,853
Interests in mining properties (Note 7)	2,091,653	1,980,536
Natural gas interest (Note 8)	999,303	1,020,525
Capital assets (Note 9)	17,433	23,188
	$ 5,840,147	$ 6,227,102

LIABILITIES

	1997	1996
Current		
Accounts payable	$ 22,013	$ 97,707
Deferred taxes payable	55,250	62,750
	77,263	160,457

SHAREHOLDERS' EQUITY

	1997	1996
Share capital (Note 10)	7,525,775	7,500,045
Deficit	(1,762,891)	(1,433,400)
	5,762,884	6,066,645
	$ 5,840,147	$ 6,227,102

The accompanying notes are an integral part of the financial statements.

Approved on behalf of the board:

______________________ Director   ______________________ Director

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
Revenue		
Investment and miscellaneous income	$ 98,685	$ 110,400
Interest earned on note receivable	105,862	41,152
	204,547	151,552
Expenses		
Administrative expenses	288,497	491,174
Provision for doubtful accounts	105,862	42,517
Abandonment and write-offs	82,720	493,730
Prospecting and general	10,451	1,059
Amortization	5,064	4,721
	492,594	1,033,201
Net loss before share of net loss of equity investment	(288,047)	(881,649)
Share of net loss of equity investment	(48,944)	(1,158)
Net loss before provision for income taxes	(336,991)	(882,807)
Provision for income taxes - current	-	347
- deferred	(7,500)	(97,250)
	(7,500)	(96,903)
Net loss	(329,491)	(785,904)
Deficit, beginning of year	(1,433,400)	(647,496)
Deficit, end of year	$(1,762,891)	$(1,433,400)
Net loss per share (weighted average)	$ (0.024)	$ (0.061)

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1997

	1997	1996
Operating activities		
Net income (loss)	$ (329,491)	$ (785,904)
Items not affecting cash:		
Deferred income taxes	(7,500)	(97,250)
Share of net loss of equity investment	48,944	1,158
Abandonment and write-offs	82,720	493,730
Amortization	5,064	4,721
Unrealized exchange gain/loss	(5,632)	(675)
Gain on sale of marketable securities	(31,284)	(8,438)
	(237,179)	(392,658)
Decrease (increase) in accounts receivable	17,260	36,426
Decrease (increase) in prepaid expenses	1,896	(5,941)
Decrease (increase) in due from directors	-	45,994
Increase (decrease) in accounts payable	(75,694)	78,816
Increase (decrease) in income taxes payable	-	(2,698)
Cash used in operating activities	(293,717)	(240,061)
Investing activities		
Mining properties acquisition costs	-	(16,885)
Deferred exploration expenditures	(179,837)	(136,475)
Proceeds on sale of marketable securities	117,882	200,134
Proceeds on sale of foreign resource property	-	997,575
Natural gas interests	21,222	(155,138)
Sale (purchase) of capital assets	691	(2,814)
Share investment	-	(596,754)
Increase in loan receivable	-	(546,903)
Investment in subsidiaries	(41,548)	(716,977)
Cash provided by (used in) investing activities	(81,590)	(974,237)
Financing activities		
Issue of shares	11,730	435,249
Change in cash	(363,577)	(779,049)
Cash, beginning of year	633,493	1,412,542
Cash, end of year	$ 269,916	$ 633,493

The accompanying notes are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997

1. Nature of operations

The Company has interests in mining properties which it is in the process of exploring and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of expenditures on resource properties, including deferred exploration expenditures, is dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the exploration and the development of the resource properties, and upon future profitable production or proceeds from the disposition thereof.

2. Summary of significant accounting policies

(a) Principles of consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries in Canada, Peru, Turkey and the United States.

(b) Marketable securities
Marketable securities are carried at the lower of cost and market value.

(c) Interests in mining properties
Interests in mining properties and claims are stated at cost. Exploration expenditures relating to mining properties in which an interest is retained are deferred and are carried as an asset until the result of the projects are known. If a project is successful, the acquisition cost and related deferred exploration expenditures would be amortized by charges against income from future mining operations. If a project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property and the related exploration expenditures are written off.

Exploration expenditures, which are general in nature and cannot be associated with a specific group of mining claims, and general administrative expenses are written off in the year in which they are incurred.

(d) Natural gas interest
Natural gas interest is stated at cost and includes expenditures for carrying and retaining undeveloped properties.

(e) Capital assets
Capital assets are stated at cost less accumulated amortization. Amortization of capital assets have been provided in the accounts on the straight line basis at the following rates:

Leasehold improvements - over the term of the lease
Furniture and fixtures - over 5 years
Computer equipment - over 3 years

(f) Foreign currency translation

Balances denominated in foreign currencies are translated into Canadian dollars as follows:

i) monetary assets and liabilities at year end rates;
ii) all other assets and liabilities at historical rates; and
iii) revenue and expense transactions at the average rate of exchange prevailing during the year.

Exchange gains or losses arising on these transactions are reflected in income in the year incurred.

3. Marketable securities

The marketable securities on hand at December 31, 1997 had a market value of $387,420 (1996 - $569,097).

4. Share investment

The share investment represents 943,500 shares of Ace Developments Ltd. ("Ace") acquired on the sale of Oro Sunkwa Inc. The hold period for these shares expired on December 29, 1997. The Company granted an option to three directors/ex-director of Ace to acquire all the shares held by the Company at $1.00 per share at any time on or after December 30, 1997 and up to and including January 30, 1998. The Company was granted an option by these same directors/ex-director to require these directors/ex-director to purchase all the shares of Ace held by the Company at $0.85 per share at any time on or after January 30, 1998 and up to and including February 28, 1998. At December 31, 1997, the shares had a market value of $94,350. (See Note 15)

5. Note receivable

The note receivable represents a promissory note due from Altai Philippines Mining Corporation ("Altai Philippines"). This note bears interest at the rate of 18% per annum compounded annually. Although this note has no fixed terms of repayment, Altai Philippines is required under the terms of its shareholders' agreement to use at least 60% of its operating income to first pay any and all loans and accrued interest due to the Company. The monies advanced under this promissory note were for the purposes of exploration and acquisition of properties by Altai Philippines.

6. Investment in subsidiaries

The Company records its investment in the 40% owned subsidiary, Altai Philippines Mining Corporation, on the equity basis. Under this method, the Company reflects in earnings its proportionate share of the earnings (losses) of the subsidiary. The investment in the subsidiary is recorded at cost minus undistributed losses since inception.

	1997	1996
40% equity shares and investment expenses	$ 1,073,559	$ 1,032,011
Share of net losses to date	(50,102)	(1,158)
	$ 1,023,457	$ 1,030,853

The investment in the Company's wholly owned subsidiary, Compania Minera Carrera S.A., has been written down to a nominal value. The Company has abandoned all activities in Chile and currently retains no interest in any properties in the country.

7. Interests in resource properties

	Balance, Beginning of Year	Expenditures	Write-off/ Disposition	Balance, End of Year
Malartic Township, Quebec				
Property	$ 279,961	$ -	$ -	$ 279,961
Expenditures	717,781	4	-	717,785
Killala Township, Ontario				
Property	-	-	-	-
Expenditures	149,524	170	-	149,694
Gold River, Nova Scotia				
Property	16,885	14,000	30,885	-
Expenditures	631	28,854	29,485	-
Victoria, Peru				
Property	-	-	-	-
Expenditures	422,115	42,951	-	465,066
Rio Colorado, Peru				
Property	-	-	-	-
Expenditures	55,544	4,583	-	60,127
Tierra Amarilla, Peru				
Property	-	-	-	-
Expenditures	25,943	36,180	-	62,123
Other Properties, Peru				
Property	-	-	-	-
Expenditures	197,697	67,845	22,350	243,192
Bayat, Turkey				
Property	62,618	-	-	62,618
Expenditures	37,069	-	-	37,069
Other Properties				
Property	-	-	-	-
Expenditures	14,768	(750)	-	14,018
Total Mining Properties				
Property	359,464	14,000	30,885	342,579
Expenditures	1,621,072	179,837	51,835	1,749,074
	$ 1,980,536	$ 193,837	$ 82,720	$ 2,091,653

Resource properties descriptions:

Malartic Township, Quebec
50% working interest in mining claims.

Killala Township, Ontario
100% interest in unpatented mining claims.

Bayat, Turkey
100% interest in an antimony property of 512 hectares (1,280 acres) in the Afyon Province, Turkey.

Victoria, Peru
70% interest in a gold property of 5 claims aggregating to 3,200 hectares (7,907 acres) in the Arequipa Province, Peru.

Rio Colorado, Peru
100% interest in gold concessions of 1,000 hectares (2,471 acres) in Sanchez-Carrion, Peru.

Carcapata, Peru
100% interest in a gold property of 3,900 hectares (9,637 acres).

Tierra Amarilla, Peru
100% interest in a gold property of 4,200 hectares (10,378 acres).

Other Properties, Peru
Five Peruvian properties, 100% owned by Altai through claim staking, including 2 gold and 3 copper-gold properties.

Tassawini, Guyana
The Company retains a 10% net profits interest (NPI) of Menora Resources Inc.'s ("Menora") share of the project. Menora can buy out the NPI by paying the Company US$2,000,000 on or before March 6, 2000.

8. Natural gas interest

At the beginning of 1997, the Company owned 34.9% working interest in one of the four permits and one of the two reservoirs in a natural gas storage project comprising natural gas leases covering certain lands in the Sorel area of Quebec. At December 31, 1997, the working interest in this permit remained at 34.9%. In three of the four permits and one of the two reservoirs in the property Altai owned a 78.9% working interest at the beginning of 1997. At December 31, 1997, this working interest remained at 78.9%. The overall working interest of the Company in this project as at December 31, 1997 was 48.91%. Menora Resources Inc. holds 10% net interest participation in the Company's future share of net profits after payback from the project. Menora's participation is limited to the recovery of its investment carrying value of $259,010.

In February 1997, an option agreement was signed between Altai Resources Inc. and its project partner, Petro St-Pierre Inc., and Great Legends Mining Inc. ("Great Legends") of Montreal to grant an option for Great Legends to earn 50% working interest in the property by spending $3 million exploration-development expenditures and making cash payment of $550,000 to the existing joint venture partners over four years.

9. Capital assets

	1997			1996
	Cost	Accumulated Amortization	Net	Net
Furniture and equipment	$ 42,573	$ 26,734	$ 15,839	$ 18,861
Leasehold improvements	13,663	12,069	1,594	4,327
	$ 56,236	$ 38,803	$ 17,433	$ 23,188

10. Share capital

Authorized:
An unlimited number of common shares of no par value

Issued:	No. of shares	Amount
Issued at December 31, 1996	13,509,167	$7,500,045
Issued during the year	37,000	25,730
Issued at December 31, 1997	13,546,167	$7,525,775

(a) During 1997 the Company issued 17,000 shares (1996 — 368,322 shares) pursuant to exercise of stock options.

(b) During 1997 the Company issued 20,000 shares of its capital at a deemed value of $14,000 as a finders fee for the Gold River property.

(c) At December 31, 1997 options were outstanding to directors, officers and employees pursuant to the Company's 1987 and 1996 incentive stock option plans to purchase 1,195,000 shares at prices ranging from $0.47 to $2.15 per share expiring at dates ranging from December 6, 1998 to August 26, 2000.

11. Interest earned from note receivable and provision for doubtful accounts

A provision for doubtful accounts has been made for the annual interest income of the note receivable from Altai Philippines as it has to date been unable to generate operating income (see Note 5) and accordingly has been unable to meet its interest obligations to the Company.

12. Related party transactions

Consulting services were provided by officers. Fees for such services amounted to $173,000 (1996-$183,786).

13. Lease commitment

The minimum annual rental under the Company's lease, exclusive of operating costs for which the Company is responsible, is as follows:

1998	$3,313

14. Income taxes

The provision for income taxes is different from the amount that would have been computed by applying statutory federal and provincial rates due to the following:

	1997	1996
Statutory rate	22.34%	22.34%
Loss before income taxes	$ (329,491)	$ (785,904)
Provision for taxes	(7,500)	(97,250)

	1997	1996
Amortization per statements	5,064	4,721
Write-offs and abandonments	82,720	493,730
Prospecting expenses	10,451	-
Share of loss of equity investment	48,944	1,158
Non-taxed capital gains	(7,821)	(2,109)
Non-deductible losses of subsidiaries	8,800	22,124
Dividends	(16,424)	(26,239)
Capital cost allowance	(5,164)	(5,565)
Income (loss) for tax purposes	$ (210,421)	$ (395,334)

The Company has the following income tax losses and timing differences, the benefits of which have not been recognized in these financial statements.

Income tax losses by year of expiry:

2000	$ 148,000
2001	214,000
2002	394,000
2003	210,000
	$ 966,000

15. Subsequent event

The option granted to the three directors/ex-director of Ace to acquire the 943,500 Ace shares at $1.00 per share from the Company expired on January 30, 1998 without being exercised.

On February 24, 1998, the Company served the same directors/ex-director of Ace with the put notice to require them to purchase the same Ace shares at $0.85 per share from the Company. They failed to comply with the terms of the agreement.

On February 10, 1998 the Company was served with a writ of summons by Tadeusz F. van Wollen, one of the three Ace directors/ex-director in the Option Agreement, with the latter's claim that the Option Agreement is void and unenforceable by the Company.

The Company is taking appropriate action in the matter.

16. Reclassification

Certain figures in the comparative statements have been reclassified to conform with presentation adopted in the current year.

Bolton & Bolton
Chartered Accountants
25 Oakcrest Avenue, Unionville, Ontario L3R 2B9

AUDITORS' REPORT

To the Shareholders of Altai Resources Inc.

We have audited the consolidated balance sheets of Altai Resources Inc. as at December 31, 1997 and 1996 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Bolton & Bolton
Chartered Accountants

Unionville, Ontario
February 27, 1998

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA - UNITED STATES REPORTING DIFFERENCES

In the United States, reporting standards for auditors require the expression of a qualified opinion when the financial statements are affected by significant uncertainties such as those referred to in notes 1 and 2 to the financial statements. The opinion in our report to the shareholders dated February 27, 1998 is not qualified with respect to, and provides no reference to, these uncertainties since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

Bolton & Bolton
Chartered Accountants

Unionville, Ontario
February 27, 1998

CORPORATE INFORMATION

DIRECTORS:	Dr. Niyazi Kacira Dr. Andrew Szonyi Maria Au Kursat Kacira Babu Gajaria
OFFICERS:	Dr. Niyazi Kacira - President and CEO Maria Au - Secretary-Treasurer Dr. Arpad Farkas - VP, Exploration
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AUDITORS:	Bolton & Bolton Unionville, Ontario, Canada
LEGAL COUNSEL:	Stewart & Associates Toronto, Ontario, Canada
STOCK EXCHANGE LISTING:	The Toronto Stock Exchange Symbol: ATI
U.S.A.:	SEC RULE 12g3-2(b) EXEMPTION NO.: 82-2950